

Key Risk Factors

Improvement of the Internal Control and Risk Management System is based on the key business area of IDGC of the North-West. Within this system, effective exchange of information required for operational and strategic risk management, is maintained between the Board of Directors, executive bodies, and all functional units.

Aims and objectives of risk management:

1. Provide reasonable guarantee of the achievement of strategic aims:

- identify and evaluate materiality of events affecting the achievement of the strategic aims;
- take preventive measures to minimize the probability and negative impact of risks on the aims;
- strategic planning, taking risks into account;
- timely inform the Company's General Director (Management Board) and stakeholders about threats and opportunities;
- monitor measures to control risks.

2. Preserve assets and maintain business productivity:

- identify, assess and manage risks related to business processes;
- provide information about the risks in decision-making;
- form the matrixes of risk controls;
- establish and manage the system of key risk indicators (KRIs);
- prevent fraud.

3. Ensure the continuity of electricity transmission:

- create programs of response to risky situations;
- regulate the processes of risk event consequences localization;
- coordinate, provide and evaluate the effectiveness of timely response to emergencies.





The process approach is used for risk identification and management. Measures aimed at preventing and minimizing risks, are developed and updated quarterly. As part of a package of measures to develop and improve the internal control and risk management system, the Company's Management Board considers on a quarterly basis the summary report on the implementation of risk management measures as part of the Report on the operational risks of the main business processes of the Company.

- Critical risk
- Significant risk
- Moderate risk

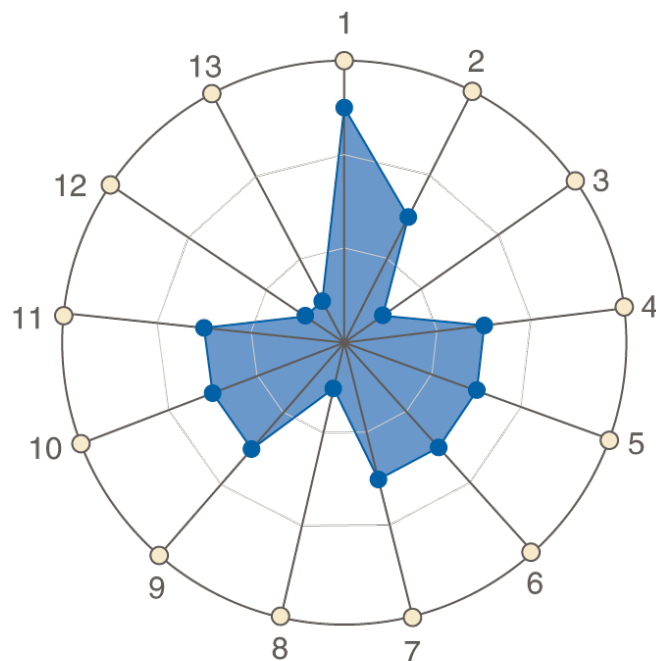
Risk	Description	Risk mitigation measures	Risk significance evaluation and trend
Sector risks			

Risk	Description	Risk mitigation measures	Risk significance evaluation and trend
<p>The risk of a significant increase of overdue accounts receivable for electricity transmission associated with low payment discipline of the end consumers and the risk of growth of bad debts for the services on electricity transmission associated with disagreements arising with customers on the application of sector-specific legislation with regard to payments for electricity transmission services.</p>	<p>Overdue receivables for services electricity transmission has a large share in the structure of total receivables of the issuer and has a significant impact on its financial results. Due to the growth of overdue receivables for services on electricity transmission and shortfalls of funds from counter parties, there is a need to attract credit resources under tight schedule of payments of the issuer to the suppliers, on payroll, tax and other payments.</p>	<ul style="list-style-type: none"> — ongoing implementation of analysis of the causes of disputes in agreeing the amount of transmitted electricity; — development of short-term action plans to address the causes of conflicts with consumers; — approval of a schedule for overdue receivables reduction in relation to the electricity supply services and dispute settlement; — accumulation of judicial practice and creation of positive precedents in cases where the consumer is unduly contesting his affiliation to supply points (e.g., refusal of the utility service performers to record the amount of electricity consumed for the communal needs or determined using the communal meter); — holding campaigns on the conclusion of “direct” contracts for provision of services on electricity transmission with end consumers of the services. 	
<p>The risk of non-recognition by regional authorities in full of the costs of the Company included in the tariff for electricity transmission, which can be caused by growth restriction of the limiting levels of tariffs for electricity, established at the federal level.</p>	<p>This risk entails the impossibility of full compensation of economically justified costs of the Company and limitation of the scope of investment of own funds into the development of the electric grid complex.</p>	<ul style="list-style-type: none"> — interaction with regional bodies on regulation of tariffs is performed to establish economically justified tariffs to compensate all the costs of the Company and ensure the realization of the Investment Program to the necessary extent; — a balanced policy on the formation of the cost is being implemented. 	

Risk	Description	Risk mitigation measures	Risk significance evaluation and trend
<p>Risks, violation of terms of regulated procurement procedures for the reporting period of the current year (violation of the official deadline for announcing procurement procedures, provided by the Procurement Plan and the decisions of CCC of the issuer (for unplanned procurements); deadline for completion of procurement procedures established by the administrative documents of the Company and the procurement documentation); deadlines for completing delivery and works.</p>	<p>The causes of this risk are untimely provision of technical specifications and draft contracts, a long period of coordination of the draft Procurement Plan, its amendment and long period of approval of unplanned purchases</p>	<ul style="list-style-type: none"> — control of the deadlines for providing the technical specifications, checklists and draft contracts for the timely drafting of the Procurement Plan for performing research to determine the market value of the desired products; — monitoring compliance of the number of procedures carried out in various ways with the planned values in the Procurement Plan; — formation of draft technical specifications for the execution of design and survey work, construction and installation work and work on the operational and maintenance activities on the basis of standard technical specifications; — monitoring compliance with the deadlines for preparation of procurement documentation, established by the administrative documents of the Company. 	
<p>The risk of the cost of the procurements exceeding above the costs established in the Procurement Plan.</p>	<p>The causes are the lack of verification of the validity of the calculation of the limit (initial) cost of purchases during the formation of the Procurement Plan, the formation of the Procurement Plan and its amendments in the absence of a Business Plan approved by the Board of Directors (under the scenario conditions for the coming and the current year).</p>	<ul style="list-style-type: none"> — control of the formation of lots items in the Procurement Plan, excluding the restriction of competition between the participants of the procurement procedures; — monitoring compliance of the number of procedures carried out in various ways to the planned values in the Procurement Plan; — monitoring compliance of the Procurement Plan with the production programs for the current calendar year approved by the Issuer; — control of the formation of draft technical specifications to perform works concerning the operational, maintenance and investment activities on the basis of the standard technical specifications; — control of compliance deadlines for the preparation of procurement documentation, established by the administrative documents of the Company; 	
Country and regional risks			

Risk	Description	Risk mitigation measures	Risk significance evaluation and trend
The risk of reduction of actual electricity consumption by the end consumers of the services.	The risk of reduction of actual electricity consumption by the end consumers of services as a result of macroeconomic factors due to lower demand for products on the global and domestic markets due to the crisis (for example, in the markets of oil, gas, metals), the introduction of energy efficiency programs and the transition to alternative energy sources, construction of consumers own generation, electricity networks, reduction in electricity consumption due to changes in weather or climate conditions.	<ul style="list-style-type: none"> — continuous monitoring of energy consumption; — formation and submission of proposals for productive supply in accordance with the requests of the consumers to the government regulatory agencies of tariffs; — carrying out the work with customers on coordination of target figures of productive supply of electricity to be included in the contract for the next year in the amount of applications. 	
Financial risks			
Interest rate risks	Interest rate risk is the risk of adverse changes in interest rates on the financial markets. Rising interest rates, associated with the lack of liquidity in the banking system may substantially affect the financial and economic activities of the issuer, since the Company uses borrowed funds in its activities.	Currently, due to the unfavorable situation of the financial markets the interest rates on newly attracted loans in the 4th quarter of 2014 increased. The Company diversified the loan portfolio by credit products, banks, and credit periods.	
Currency risks	The Company came under the influence of negative macroeconomic factors associated with the growth of the crisis in the global economy, which had a negative impact on the exchange rates. The increase in the rates of major world currencies has no significant effect on the financial condition of the issuer. The Company makes settlements with the counterparties only in national currency in the course of the operating activities, both in the revenue and expenditure directions. The Issuer has no direct contracts with counterparties involving payments in foreign currency. However, some projects within the framework of the maintenance and investment programmes involves the use of equipment of foreign manufacture.	The appreciation of major currencies leads to a rise in the cost of such equipment and the project as a whole. To reduce the risk of the impact of appreciation of world currencies, the issuer shall consider the possibility of replacing the equipment of foreign manufacture used in the projects with analogs, produced in Russia.	
Legal risks			
Risks associated with changes in tax legislation.	The practice of tax law is often unclear, contradictory and leads to the presence of significant tax risks. Changes in tax legislation, in terms of increasing the tax burden (tax rate changes, the order and terms of calculation and payment of taxes, introduction of new taxes) may lead to a decrease in the net profit of the issuer, which in turn will reduce the amount of dividends paid. Should the Russian Government decrease tax rates, as well as cancel some of the taxes and fees, these actions have a positive impact on the results of the issuer's activity.	In case of changes in the tax laws, the issuer is going to plan its financial and economic activity considering the changes.	
Risks associated with the Company's activities			

Risk	Description	Risk mitigation measures	Risk significance evaluation and trend
Risks associated with possible lawsuits resulting from non-performance of obligations to the issuer by third parties on the core activities (the provision of electricity transmission services, services for technological connection).	There are risks associated with litigation on the obligations of third parties to the issuer as a result of non-fulfillment of contractual obligations on the core activities of the issuer, (the provision of electricity transmission services, grid connection services), including due to the currently prevailing economic situation. At the same time, the issuer makes necessary efforts (performs pre-trial settlement of disputes, conducts necessary negotiations) to minimize these risks and property damage for the issuer.	In case of presentation of the respective claims in court, the legal position on important for the issuer court cases is developed for the Company as a whole and is being coordinated with the relevant structural subdivisions of the respective branch and the executive office of the Company. The issues of forming the necessary evidence base are also resolved in the course of this coordination. During the development of the legal position the formed judicial practice on controversial issues is taken into account.	
The risk of fines due to the recognition of the Company in violation of the antimonopoly legislation of the Russian Federation in the implementation of grid connection of the consumers' power facilities.	This risk leads to the reduction of the Investment Program or an increase in borrowings.	<ul style="list-style-type: none"> — monitoring of problem contracts and consumer complaints, followed by pre-trial resolution of the issues; — control over compliance with the existing legislation regulating the activities on technological connection, in terms of: <ul style="list-style-type: none"> a) preparation and direction of draft contracts to the applicants; b) monitoring of implementation of the accepted obligations, performed by the Company within the framework of the grid connection being carried out; — monitoring the current Russian legislation and judicial practice; — direction of proposal to amend the current legislation of the Russian Federation governing the activities on technological connection. 	
The risk of accidents at power plants.	The risk of accidents at power plants as a result of adverse natural phenomena (hurricane winds, heavy snow, ice, low temperature), related to geographical and climatic characteristics of the North-West region of the country.	<ul style="list-style-type: none"> — designing of energy facilities taking into account the characteristics of the regional climate and geography; — implementation of the program of insurance protection of electricity distribution facilities of the complex from natural disasters. 	
The risk of completion of the Company's activities in the status of a guaranteed supplier (temporary function of a network organization in accordance with the current legislation).	<p>The functions of guaranteeing supplier of electricity at IDGC of the North-West in 2014 were performed:</p> <p>From 01.03.2013 until 01.02.2015 at the Kolenergo branch — Kolenergosbyt (winner of the Garantenergoservis LLC competition).</p> <p>From 01.10.2013 until 10.01.2014 at the Novgorodenergo branch — Novgorodenergosbyt (winner of the AtomEnergoSbyt competition).</p>	The risk is external; it is managed by the executive body. The Company carried out energy sales activities before the assignment (transfer) of the status of GS to other parties — sales companies, on the grounds stipulated by normative legal acts of the Russian Federation. The company carries out measures established by the local regulations of the issuer and aimed at minimization of the possible effects from transfer of the status of the GS to the competition winners.	



● Оценка значимости риска

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| 1 Риск увеличения просроченной дебиторской задолженности за услуги по передаче электроэнергии | 7 Процентные риски |
| 2 Риск непризнания региональными органами в полном объеме расходов Компании | 8 Валютные риски |
| 3 Риск увеличения числа льготных потребителей | 9 Риски, связанные с изменением налогового законодательства |
| 4 Риски нарушения сроков проведения регламентированных процедур закупок | 10 Риск наложения штрафов |
| 5 Риск превышения стоимости закупок над запланированными в Плане закупок | 11 Риски, связанные с возможными судебными процессами |
| 6 Снижение фактического потребления электроэнергии конечными потребителями услуг | 12 Риск наступления аварий на энергоустановках |
| | 13 Риск завершения деятельности Компании в статусе гарантирующего поставщика |